

Message Text

SECRET

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S E C R E T HAMBURG 0025

EXDIS

E. O. 11652: GDS
TAGS: ETRD ENGR EFIN UR GW
SUBJ: SOVIET NEGOTIATIONS FOR PURCHASE OF SPECIAL TRAWLERS
FROM FRG

REF: A. MOSCOW 19020; B. HAMBURG 1696; C. MOSCOW 18769;
D. MOSCOW 18552

1. SUMMARY. DR. PETER KNAPPERTSBUSCH, MEMBER OF THE BOARD OF DIRECTORS OF HOWALDTSWERKE-DEUTSCHE WERFT AG, CONFIRMED TO CONSULATE OFFICER THAT HIS FIRM IS NEGOTIATING THE SHIP-BUILDING CONTRACT WITH THE USSR AS DESCRIBED IN REFTELS. END SUMMARY.

2. DURING MEETING ON JANUARY 7TH WITH DR. PETER KNAPPERTSBUSCH, MEMBER OF THE BOARD OF DIRECTORS (VORSTANDSMITGLIED), HOWALDTSWERKE-DEUTSCHE WERFT AG (HDW) IN WHICH A VARIETY OF TOPICS WERE DISCUSSED, CHIEF OF ECON/COMMERICAL SECTION RAISED SUBJECT OF REPORTED FRG NEGOTIATIONS TO BUILD 25 TRAWLERS FOR SOVIETS. DR. KNAPPERTSBUSCH CONFIRMED THAT HIS COMPANY IS THE GERMAN PRINCIPAL IN THESE NEGOTIATIONS AND THAT THE DEAL IS MUCH AS DESCRIBED IN REFTELS. FURTHER INFORMATION AND CLARIFICATIONS ARE SET OUT IN FOLLOWING PARAGRAPHS.

3. WHILE INITIAL REQUEST WAS FOR 25 TRAWLERS AT DM 100 MILLION EACH, FOR A TOTAL OF DM 2.5 BILLION (APPROX. \$1 BILLION), THE
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SOVIETS HAVE NOW INDICATED THAT THE PRICE PER VESSEL IS TOO

HIGH. HDW IS WORKING ON DESIGNS FOR A SMALLER VESSEL WHICH WOULD COST SOMEWHAT LESS. NEGOTIATIONS ARE SCHEDULED TO REOPEN IN MOSCOW AT END OF JANUARY.

4. SHIPS IN QUESTION WOULD BE FISHING TRAWLERS, NOT FOR USE IN FERRO-MANGANESE EXPLORATIONS AS SUGGESTED IN REF D. THESE TRAWLERS WOULD CONTAIN COMPLETE FISH PROCESSING FACILITIES FOR CANNING OR FISH MEAL, WHICH ACCOUNTS FOR HIGH COST PER VESSEL. MAJOR DETERMINANT OF COST IS THIS PROCESSING EQUIPMENT, NOT THE SIZE OF THE TRAWLER, AND KNAPPERTSBUSCH SUGGESTED THAT THE NEXT COST ESTIMATE WILL NOT BE VERY MUCH BELOW DM 100 MILLION PER UNIT.

5. AS NOTED IN REF B, HDW HAS ALREADY BUILT A NUMBER OF TRAWLERS FOR SOVIETS; KNAPPERTSBUSCH INDICATED 24 SHIPS OVER THE LAST 25 YEARS. SOME OF THESE, HE SAID, ARE BEING USED AS ELECTRONIC MONITORING (SPY) SHIPS, AND HE INDICATED THAT SOME OF THE NEW SHIPS, IF THE DEAL GOES THROUGH, MIGHT FIND SIMILAR END USE. OF COURSE, HE SAID, HDW DOES NOT EQUIP SHIPS FOR THIS ROLE, BUT WHAT SOVIETS DO AFTER THEY RECEIVE THEM IS NOT SUBJECT TO CONTROL BY HDW.

6. FINANCING FOR CONTRACT IS APPARENTLY AS REPORTED. IN ORDER TO PROTECT MOSCOW'S BANK OF AMERICA SOURCE, THIS ELEMENT WAS NOT PURSUED, BUT KNAPPERTSBUSCH NODDED IN AGREEMENT TO ROUGH OUTLINE OF FINANCING ARRANGMENTS. HE DID INDICATE THAT FINANCING HAD BEEN, AS ALWAYS IN HDW EXPERIENCE, A PROBLEM WITH THE SOVIETS, WITH SOVIETS SEEKING THE MOST GENEROUS TERMS POSSIBLE. IMPLICATION WAS THAT THIS, AS WELL AS TOTAL COST OF PACKAGE, MAY STILL BE A STUMBLING BLOCK.

7. IT IS OUR OVERALL IMPRESSION THAT SOVIETS ARE NOT YET TO POINT OF SIGNING THIS DEAL. THEIR INTEREST IN IT, ACCORDING TO KNAPPERTSBUSCH, IS THAT AFTER THE INITIAL INVESTMENT IN CAPITAL EQUIPMENT, THE FISHING/FOOD PROCESSING OPERATION IS A REAL MONEY-MAKER WITH FEW OPERATING COSTS. THE PROBLEMS IN NEGOTIATING LIE IN THE FACT THAT SOVIET NEGOTIATORS ARE BY NATURE VERY CAUTIOUS, ACCORDING TO KNAPPERTSBUSCH.

8. OTHER ELEMENTS OF CONVERSATION WILL BE SUBJECT OF SEPARATE
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